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August 5, 1999

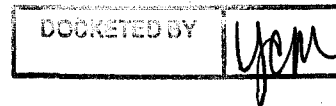
AZ CORP COMMISSION
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Mr. Greg Patterson
Residential Utility Consumer Office
2828 N. Central Ave.
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

AUG 06 1999

Re: APS Settlement Proposal
Docket No. E-01345A-98-0473
E-01345A-97-0773
RE-0000C-94-0165



Dear Mr. Patterson:

In response to your letter dated August 5, 1999, I note the following:

1. Nowhere in my letter to you dated July 29, 1999, do I even suggest that the settlement negotiated by Commission staff was superior to the one being considered by the Commission at this time. It is obvious by your assertion that Mr. Rose alone negotiated the settlement that your personal hatred for this individual – who has nothing to do with the issue now – has somehow clouded your judgment; RUCO should be analyzing the APS proposal on its own merits, not comparing it with a proposal that is no longer relevant. Therefore, you are wrong to assert that I support a \$533 million dollar stranded cost figure. If you *analyze* my letter carefully, you will recognize my reference to the recent US West case in which the court found no regulatory compact (the genesis for the stranded cost argument) exists between the Commission and utilities. That would suggest zero stranded costs.
2. My assertion about Mr. Bullis' participation was crystal clear – although he was invited to attend and represent the Commission, he was not allowed to *actively participate*. Had the Commission been able to participate in the negotiations, it would have been a party to the agreement. I am disappointed that you cannot distinguish between “watching on the sidelines” and actually “playing in the game.”
3. What exactly was your intention in making those comments in the Tribune article? It is no secret that you have been actively lobbying for the Utilities Director position since January 1998. To assert that the division has been without a Director since February 1998 is simply untrue; Ray Williamson has been acting as Utilities Director since that time, and in my opinion, has done an outstanding job. Furthermore, to suggest that the

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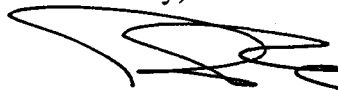
political controversy engulfing the Commissioners' Wing somehow reflects poorly on how regular Commission employees perform their duties is rather bold, especially when you desire to supervise these individuals in a capacity as their Director.

4. I don't allege that RUCO failed to analyze the APS settlement proposal – you admitted so yourself in your testimony. I find it very telling that RUCO cannot produce even *one* sheet of paperwork showing that critical analysis and thought went into studying the various sections of the settlement. Stranded cost recovery is but one aspect of the agreement, and when your expert testified in the prior APS stranded cost hearings (Yes, Patrick, we analyzed the stranded cost investment filing made by APS”), he placed the figure at around \$110 million dollars.
5. Arizona's courts have upheld the Commission's right to deregulate the electric industry, and rules for electric competition were in effect 10 full days before Messrs. Kunasek and West's decision to issue a “stay.” Under our legal process, Decision No. 61311 effectively suspended the rules to delay the implementation of competition.

Commissioner Irvin will consider the entire record in casting his vote regarding the proposed APS settlement agreement. I still believe that RUCO has failed in its obligation to residential consumers by not critically analyzing the entire settlement, but in my opinion that failure rests primarily on you rather than your staff -- individuals who I find extremely professional in matters before this Commission.

Thank you for answering my questions and clarifying your position in this matter.

Sincerely,



Patrick J. Black
Executive Assistant

Cc: Carl J. Kunasek, Chairman
Jim Irvin, Commissioner
William Mundell, Commissioner